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Persistent Animal Feed Shortage Taxes Livestock Producers

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Report Highlights:

The lack of availability and high price of animal feed continues to hinder Iraq's agricultural economy and results in reduced agricultural employment and higher meat prices. Significant demand exists for corn, soybeans, and other feeds but it is stifled by governance and transportation barriers. However, bulk private sector imports of feed are poised to grow rapidly if import regulations are liberalized. This report provides estimates of Iraqi feed grain supply, details the current and preferred pathways for feed imports, and gives an 'on the ground' perspective of Iraqi import practices.

General Information:

Section I – Feed Situation

Shortage of Feed in Iraq: In Iraq, growing demand for sheep, beef, and poultry is not being met and meat prices are high compared to surrounding countries. Although data on animal numbers are sketchy, over the past three decades cattle and sheep populations have declined while the human population has nearly doubled to almost 30 million. Poultry production and imports have recently grown rapidly but per capita consumption is still only a fraction of levels in surrounding countries.

Domestic feed wheat and barley production has been affected by drought and the resulting contraction in the feed supply has primarily affected the sheep sector. It is likely that sheep and goat numbers have declined significantly in recent years. If this is the case, it calls into question how the Iraqi local feed market will respond if grain production returns to “average” production in 2010. Feed wheat is already extensively used by the poultry sector, and if there is a large wheat and barley crop next summer imports of feed grains could face competition. Protein meal would be the exception because of no established domestic production capacity.

Animal Numbers In Iraq

Iraq Livestock Estimates: 2006 – 2009 (million head) (includes KRG)

	2006 Iraqi – Ministry of Agriculture	2007 USDA- Baghdad	2008 USDA- Baghdad	2009 USDA- Baghdad	% Change
Sheep	18.615	17.580	15.412	13.025	- 30
Goats	1.897	1.860	1.710	1.614	-15
Cattle	1.437	1.365	1.228	1.166	-25
Buffalo	0.146	.146	.146	.146	-0-
Camels	0.009	.009	.009	.009	-0-

Official Iraq Ministry of Agriculture animal census estimates have not been released in recent years. It is generally believed that the 2006 census estimates are inflated. We believe it is conservative to

reduce livestock numbers by 15-30% in reaction to the successive droughts and their impact on feed wheat and barley production. There is little evidence that feed grain imports increased substantially in response to this situation. A 2008 Government of Iraq/Ministry of Agriculture Drought Relief Program, which was to include a large purchase of feed barley for livestock use was never fully implemented.

High internal feed prices and high red-meat prices lead us to conclude that producers have faced a situation where they must sell animals to buy feed for the remaining stock. Regrettably, high wholesale beef and mutton prices have not resulted in increased revenues at the producer level. Livestock prices fell during the late summer of 2008 as producers marketed animals they could no longer afford to feed. Producer prices have stabilized since then, while wholesale red meat prices have risen dramatically.

Feed products available to the poultry sector have likely seen a small increase this year as the result of lower international commodity prices and increased familiarity and availability of pelleted feed.

Iraqi Poultry Meat Production, Imports, Per Capita Consumption

	1987	1997	2006	2007	2008	2009	2010F
Production (1,000 Metric Tons)	n/a	33	50	95	95	110	125
Total Imports (1,000 Metric Tons)	n/a	5	119	176	211	265	290
Per Capita Consumption (in kilograms)	n/a	n/a	6.3	9.9	10.8	13	14
Source: Foreign Agricultural Service							

Drought during 2008 and again this year has severely reduced Iraq's output of both food and feed grain crops. Wheat production is currently estimated at 1.31 million metric tons this season, (2009/10) or 40% below the average expected crop of 2.3 million metric tons. The bulk of the wheat crop shortfall occurred across Northern Iraq in the traditional rain fed areas. Wheat produced in this area is typically of low quality and is used heavily as animal feed. Wheat crop losses across this area were very similar during the 2008/09 marketing year.

Barley production lost to drought conditions closely parallels wheat losses. Barley production across Iraq averaged 465,000 metric tons (MT) during the 2008/09 and 2009/10 market years, down 56% from a pre-drought average of 1.08 million metric tons. Feed corn production has also declined in recent years due to both drought-induced irrigation restrictions and less support from the Ministry of

Agriculture, which has traditionally provided many of the inputs, including seed and fertilizer. Feed corn production during 2006/07 and 2007/08 may have been as high as 350,000 MT. Corn harvested for feed in 2008/9 probably did not exceed 100,000 MT, a 70% drop. The size of the 2009/10 corn crop is also expected to be in the 100,000 MT range.

A conservative estimate is that domestic feed production has been roughly 1.8 million metric tons per year below the pre-drought average. Imports of wheat have risen but by only 40% of the crop loss. The wheat import increase can be partially explained by the growing demand for quality milling wheat rather than simply making up for domestic wheat production shortfalls.

Iraq Feed Matrix (1,000 Metric Tons)

	2006/7	2007/8	2008/9	2009/10F
Feed Wheat				
Domestic	1,100	900	500	550
Imported	-	-	25	15
Wheat Bran	1,000	950	910	920
Barley				
Domestic	900	900	600	500
Imported	-	-	50	35
Corn				
Domestic	200	150	100	100
Imported	25	25	80	50
Other Feed				
Pellets	-	-	25	60
Soy meal	50	50	75	100
Other	2	2	3	5
Total:	3,277	2,977	2,368	2,335
Source: Estimates derived from both official and unofficial sources within Iraq; wheat bran (by product of milling both domestic and imported wheat)				

High Feed Prices Evidence of Import Demand: Domestic feed prices, as reported by [ANKA](#), a USAID-funded market information service, indicate that wholesale prices for domestic wheat, corn, and barley, have increased 50%, 66% and 100%, respectively from fall 2007 to the fall of 2009. Generally speaking, international grain prices rose significantly from the spring of 2007 and retreated in late 2008. It is interesting to note that Iraqi food and feed grain prices have not followed world price

declines.

Relative Costs of Feed - US\$ per Metric Ton (November 009)

Product	Iraqi Wholesale Interior Price	Black Sea FOB	U.S. Gulf FOB	Port of Umm Qasr (Iraq) CIF*	Syrian Port CIF*
Feed Wheat	\$445	\$145		\$205	
Feed Barley	\$438	\$140		\$200	
Corn	\$530	\$180	\$187	\$260**	\$230**
Sunflower Meal	\$850	\$145			
Soybean Meal	\$990		\$390	\$465**	\$435**
Dehydrated Alfalfa	\$950				\$385
Pelleted Feed	\$600				\$440***
Wheat Bran	\$125				

* CIF Pricing – a calculated value based upon current ocean freight rates

** U.S. origin

*** FOB Syrian Mill

The interior market prices for feed products in Iraq highlight the competitive disadvantage that Iraqi livestock and poultry producers face. Prices are well above what might be expected when transportation, handling and minimal border inspection fees and taxes (a 2½ % ‘tax’ is assessed on imports) are included.

Discussion with truck drivers at border crossings with Jordan, Syria, and Turkey suggest that the transportation cost for bagged product delivered to interior points within Iraq is in the range of \$40 - \$60/MT. Handling and bagging, and inspection fees do not explain the \$120 - \$150/MT hard cost that direct importers report paying to get feed products into the country. Iraqi wholesale prices most likely involve substantial markup, as feed products may change hands a number of times, prices also vary widely based upon availability and quality of the product.

Syrian Feed mills currently quote grower pelleted poultry feed at \$425/MT FOB. With inland freight, border taxes, and testing fees, a derived CIF price to an Iraqi end user of \$480/MT is achieved.

Section II – Observed Feed Import Pathways and Procedures

Note: This section draws heavily on visits to four Iraqi border crossings: 1) Harburgate –Dahuk (July 2009); 2) Rabiya-Ninawa (August 2009); 3) Waleed – Anbar (October 2009); and, 4) Trebil –Anbar (October 2009). The visits are part of a joint effort between USDA and the U.S. Army's 364th Civil Affairs Brigade.

Although nearly identical in terms of handling characteristics, food-use wheat and feed grains have distinct import channels. Food wheat imports of an estimated 3.8 million metric tons annually arrive via ship through Iraq's southern Arabian Gulf seaports and some wheat is distributed by rail. Wheat is imported by the government-owned Grain Board of Iraq. Most feed grains are imported privately by truck via Jordan, Syria, and Turkey, which is clearly more costly and subject to significant delays. Truckers report that they charge an additional \$50/day for each day over 5 days. This can add significantly to delivered cost, which traders build into their price quotations depending on expected border conditions.

There are obvious benefits to be gained from private use of Iraqi sea ports for more efficient vessel-sized (20,000-50,000MT) shipments of corn and soybean meal.



Documentation: A complete set of documents for a shipment of feed imported via a land border should consist of: 1. Certificate of Origin, 2. Ocean Bill of Lading, 3. A Phytosanitary Certificate, issued in the country of origin, 4. A Veterinary Certificate, 5. A Fumigation Certificate, 6. A Weight Certificate, 7. A Quality Certificate, 8. A Radioactivity Certificate, and 9. A Hold Cleanliness Certificate. Documents #3 through #9 are generally issued in the original country of export by an independent third party (e.g., SGS).

In all of our visits and meetings we possibly saw two Certificates of Origin. What were presented in almost all cases were documents that were prepared at the border, just prior to entry into Iraq. We observed Turkish, Syrian, and Jordanian manifests. Import licenses were observed at Harburgate-Dahuk and Waleed-Anbar, but always by Customs officials. This is an important point as importers

report that import licenses are issued (sold) by border officials upon arrival of feed shipments. The border official's attitude regarding documents was dismissive – “why bother when a complete set of “phony” certified documents can be purchased for \$75 in Syria.” Harburgate in Dahuk was the only entry point visited with a real-time electronic link to headquarters. In this case, it was used to verify the validity of import licenses.

Port of Entry	Certified Documents	Original Manifest	Import License	Electronic Crosscheck	Operating Scales
HarburGate- Dahuk	No	No	Yes	Import License	No
Rabiyah-Ninawa	No	No	Yes	No	No
Waleed – Anbar	No	No	Yes*	No	No
Trebil – Anbar	No	No	Yes	No	No

* Import Licenses - Iraqi importers report they are purchased on location.

Labeling: Bagged feed products generally need to be properly labeled with the name of the product and the country of origin, and the specifications of the product either printed on the bag or included on a tag. Some shipments we observed did have specification tags but little if any additional information. Most shipments of bagged product simply showed the name of the shipping company or the feed supplier. Iraqi end-users informed us that the importer or the broker involved in the transaction usually prints up the specification tag and supplies it to the feed mill with no questions asked.

Port of Entry	Electronic Documents	Efficient Traffic Flow	Through Traffic	Trans-load Area	Trans-load Area Paved
HarburGate-Dahuk	Yes	Yes	No	Yes	No
Rabiyah-Ninawa	No	No	No	Yes	No
Waleed – Anbar	No	No	Yes	Yes	No
Trebil – Anbar	No	Yes	Yes	Yes	No

Trans-Loading: Trans-loading (transfer of cargo from one truck to another, usually by hand) is generally poorly managed. At some border crossings, it is mandatory but at others it is optional. At some, trans-loading occurs prior to entering Iraq, which seems counter intuitive, as it provides an opportunity for a thorough inspection of a cargo. At other entry points, trans-loading occurs within Iraq but inspections do not take place at the trans-loading point.

Trans-load yards have in the past been “cash cows” for local sheiks, who were given licenses to operate and charge fees. If any real service or facilities were provided the fees charged might have been justified. The lack of organized and paved trans-load facilities was probably the single most heard complaint from truck drivers. Trans-loading is typically done by hand, and involves an empty truck backing up against a loaded truck and laborers transferring the cargo.

Shipment Modes: No bulk feed products were observed at the entry points visited. Bagged feed/products (50kg) were observed at all sites visited. Bagging adds considerable cost to the delivered price as it increases the labor needed per shipment. While the cost of bagging and the price of the bags themselves add to the cost, bagging is also another opportunity to add a markup to the delivered product.

Rail is an option in moving feed from the Syrian Ports into Iraq at Rabiya-Ninawa. Passenger and freight scheduled rail service between Tartous-Lattakia now operates as far as Mosul. It also seems likely that the Turkish port of Mersin could establish a rail line into Iraq using this same route. While we have not visited the rail yards in Mosul, customs officials have informed us that the rail yard in Mosul has no facilities to handle bulk feed.

Port of Entry	Bulk Grain	Bagged Grain	Containers	Rail
HarburGate- Dahuk	No	Yes	No	No
Rabiyah-Ninawa	No*	Yes	No	Yes
Waleed – Anbar	No	Yes	No	No
Trebil – Anbar	No	Yes	Yes	No
* Rail movement of grain reported but not verified				

Container shipments of pelleted feed were observed only at Trebil- Anbar, located on the border with Jordan. Container shipments have the potential to lower delivered cost to Iraqi end-users, as their use may result in labor savings. This is particularly true if containers are allowed to be transferred truck-to-truck where trans-loading is required. Container movement of feed products such as DDGS and corn gluten meal (byproducts of U.S. ethanol and corn syrup production) are well established in international markets. Large volumes of these products are exported via container from the United States and are an established part of the international trade in feed. This market has significant potential in Iraq.

Port of Entry	Corn	Soy Meal	Pelleted Feed	Wheat	Barley	Flour
HarburGate- Dahuk	No	Yes	No	No	No	Yes
Rabiyah-Ninawa	No	Yes	No	No	No	No
Waleed – Anbar	Yes	No	Yes	No	No	No
Trebil – Anbar	No	No	Yes	No	No	No

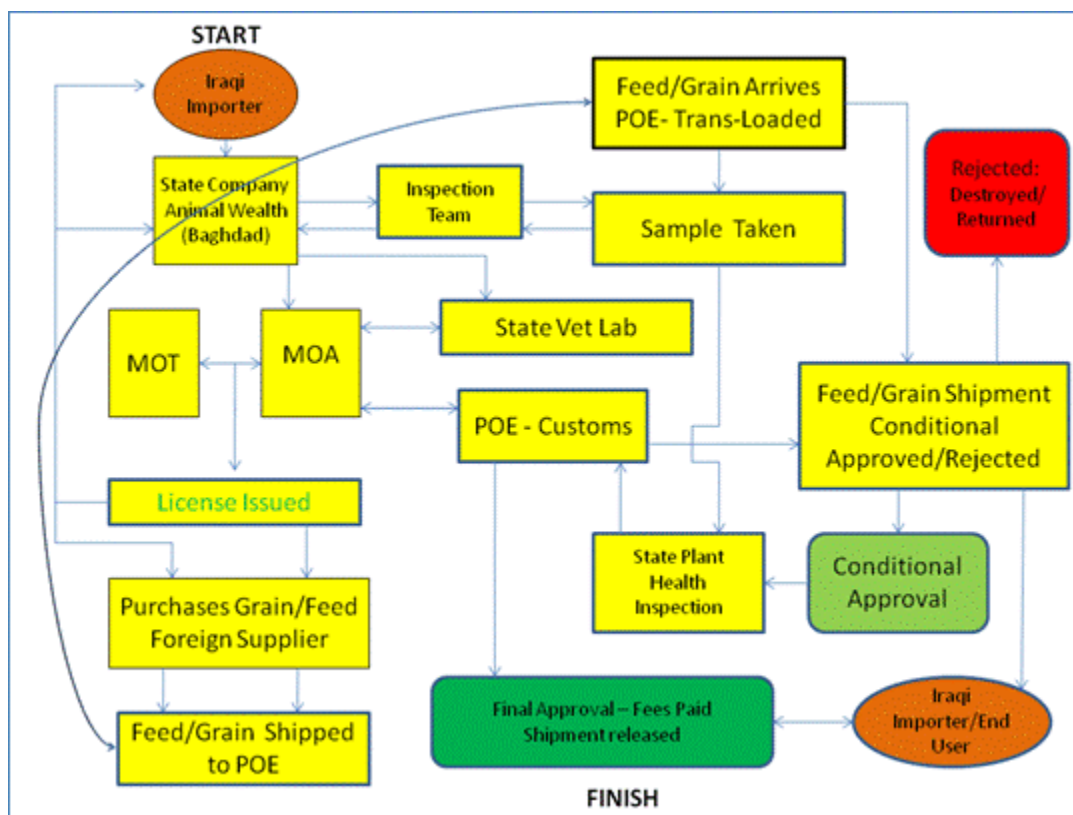
Port of Entry	Certified Documents	Original Manifest	Import License	Electronic Crosscheck	Operating Scales
HarburGate- Dahuk	No	No	Yes	Import License	No
Rabiyah-Ninawa	No	No	Yes	No	No
Waleed – Anbar	No	No	Yes*	No	No
Trebil – Anbar	No	No	Yes	No	No

* Import Licenses - Iraqi importers report they are purchased on location.

Broker/Agents: The role of brokers is to facilitate the efficient movement of shipments through the entry point. In fact, it is more accurate to view them as expeditors or agents. Brokers can represent the shipper or the importer, and are typically retained at the border by the trucker. Importers may also retain brokers and have them meet shipments as they arrive at the entry point to expedite the customs and inspection process. Because the bureaucratic hurdles are substantial and brokers facilitate the payment of fees, their role is of practical importance. However, neither the precise activities of the brokers nor the basis for their fees are transparent. Brokers are also required to be licensed but unlicensed brokers were observed operating within the Waleed–Anbar Port of Entry.

Import License Procedures: The import license and inspection process is excessively bureaucratic and is seemingly designed to inhibit imports of feed products. An importer applies for an import license through the State Company for Animal Wealth (SCAW), part of the Ministry of Agriculture. SCAW, upon receiving and reviewing the application, forwards it to the Ministry of Agriculture for the formal issuance, which is co- approved by the Ministry of Trade. The cost of the import license was not revealed either by Ministry of Agriculture officials or by importers with whom we spoke. Once an importer has an import license he/she is in position to bring feed into Iraq. When the importer has firm information regarding the arrival date of the shipment or partial shipment of feed arriving at the specified Port of Entry, they notify SCAW. Import licenses are reportedly currently issued to only a

few companies.



SCAW then assigns an inspection team to meet the shipment at the border crossing and to take samples from a group of shipments. Importers work to group shipments for border inspections. We were informed at Waleed-Anbar that importers provide transport for the SCAW inspection teams to the border and pay their incidental expenses, a clear conflict of interest. (SCAW officials in Baghdad indicate that this is no longer practiced and that the government now pays for the inspection team's travel and per diem costs. Separate inspection teams may travel to an entry point 3-4 times a week, often on consecutive days, to collect samples. Testing at the border would create a much more operationally efficient system for regulating feed.

Samples taken at Waleed and Trebil are driven to the SCAW facilities in Baghdad. However as this facility does not have a functioning lab, the samples are transferred to the State Veterinary Services (Ministry of Agriculture) laboratory, also in Baghdad. Procedures are in place to ensure blind testing; that is, samples are coded to ensure that Ministry of Agriculture staff cannot determine the identity of the importer. Test results once completed are provided to both the Ministry of Agriculture and to

SCAW, who then notify the head of Customs at the entry point of the results. If the load is determined to be unfit for importation, the importer has the option of returning it to the country of origin or destroying it. If the shipment is approved for importation, the approval is only conditional, as the Ministry of Agriculture's Plant Health inspectors then later take another sample at the entry point and to test for live insects, disease and foreign matter. Upon payment of inspection fees and a small tariff, the feed is released for shipment into Iraq. The entire process takes a minimum of 5-6 days, but many truckers reported wait times of 7-10 days or longer. Truckers last year reported delays of up to 6 weeks at a number of entry points.

Feed moving through Harburgate in Dahuk is the responsibility of the Kurdistan Regional Government (KRG - an autonomous region in Northern Iraq) and testing is independent of Ministry of Agriculture procedures. The KRG import process is similar for feed coming through Rabiya-Ninawa, except that a central lab located in Mosul is utilized. Harburgate was the only entry point visited with any semblance of efficient and competent document control. Cargo entering at this site was documented, recorded and the import license verified electronically. This system was far from perfect and provided minimal confidence that adequate controls were functioning but was clearly more professional than other entry points visited. The general consensus from end users across Kurdistan is that they prefer to import thru Harburgate whenever possible.

The Import Ban: Our visits to Harburgate-Dahuk (July 2009) and Rabeih-Ninewa (August 2009) occurred when an import ban for wheat and barley was in effect. Consequently only wheat flour and soy meal shipments were observed at these on these visits. The import ban apparently did not apply to corn or processed feed products; however, we did not observe any processed feed moving through these entry points.

In November, Ministry of Agriculture officials in Baghdad reported that the feed import ban, as it relates to corn, is only in effect during the November 1- April 1. This roughly corresponds to the harvest and with the period that ear (unshucked) corn is harvested and delivered to Ministry of Agriculture receiving sites. This roughly corresponds with the trade data received, with the exception being imports of corn in January 2009. Corn imports reported for the February – May period are zero with imports beginning again in June and continuing to date. However, none of this explains why feed corn imports are banned in the first place. Iraq's corn production is only around 100,000 MT, a relatively small quantity.

Plant Health Inspection: While inspection fees for plant diseases and invasive species are low in relative terms (2,000 Dinars/MT or about \$1.70/MT), the fee structure favors smaller shipments. A 1,000/MT feed shipment is required to pay 2.0 million Dinars or about \$1,700. Because the plant health inspection takes place after the primary inspection at the Ministry of Agriculture laboratory, it is wasteful and redundant and its primary purpose appears to be to revenue generation. Actual activity at the labs visited suggests very little testing/inspection is in fact taking place.

Weight and Measures: According to Iraqi regulations, ‘reconstruction’ and ‘income tax’ fees are to be based upon actual market value and accurate weight measurement. However, none of the entry points visited had functioning scales. In the absence of original bills of lading, it seems likely that load weights are visually estimated. Unit valuation for fee purposes appears to be seriously flawed and the published values reported on our visits were well below actual market value. The absence of functioning scales and documented market valuation creates an environment that supports corruption.

Tariffs and Taxes: A 2 ½ % tariff is collected on all imported feed products and is referred to as a ‘tax on income.’

Iraq: Feed/Ingredients Imports Jan-Oct 2009 By Port of Entry*

Metric Tons

Waleed	Trebil	Rabiyah	Khor -Z	Umm - Qasr	Abo -F	Safwan	Total
83,559	6,391	44,178	31,900	3,766	80	980	170,854

Iraq: Feed/Ingredients Imports Jan-Oct 2009*

Metric Tons

	Total
Soy Meal	70,227
Barley	22,003
Corn	32,203
Wheat	5,940
Pellets	35,950
Fish Meal	200
Premix	880
Sorghum	364
Millet	2,434
Additive	110
Enzymes	543
Total	170,854

*Does not include imports into Kurdish Area (KRG reports 5845MT/Soy meal, 1,095MT of barley, 332MT Pellets, Jan - Sept 09)

Section III – Identification of Policy and Governance Issues

Specific policies and market mechanisms work in concert to drive up Iraqi feed prices.

- Import licenses are required and the process to obtain a license is time consuming and costly. Import licenses may be issued for large quantities (e.g., 20,000MT) and are valid for 3-4 month periods. The licenses are typically used to import numerous smaller truck-sized shipments into Iraq.
- The centralized nature of the inspection process functions as a constraint to feed grain/products imports into Iraq. It also creates multiple opportunities for corruption. The current process requires 5-6 days minimum to facilitate each shipment, which is excessive.
- Imports of grains are banned 5-6 months of the year over concerns that “cheap” imports will be sold to the Ministry of Trade at the high support price.
- Trans-loading requirements at the border (transferring cargo from one truck to another) is burdensome and costly.

These policies result in the following outcomes:

- Feed import lot sizes are typically small, from a single load of soy meal (25MT) to a few thousand metric tons. The lack of scale is a primary source of inefficiency.
- Most imported grain travels overland, via trucks from ports located in Jordan, Syria and Turkey. This is costly as compared to ship and bulk rail transport, which appear to be viable alternatives.
- Numerous distributors and middlemen participate in these transactions, adding significantly to the final cost of Iraqi feed.

Section IV – Opportunities/Remedies

If the Government of Iraq wants to promote poultry and livestock production, it should encourage:

- Feed import testing at ports of entry rather than having samples sent to Baghdad for testing.
- Vessel-sized shipments of feed grains through Iraq's Arabian Gulf seaports. (We have recent reports of poultry importers arranging corn and soybean meal imports using this path.)
- Container shipments of feed and feed ingredients direct to Iraqi poultry producers via Arabian Gulf seaports as a method of eliminating land border crossings and middlemen.